Managing a Creative Strategy

Week 7

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Strategic Management

What is strategic management?

Strategic Management is what managers do to develop the organization’s strategies.

An organization’s strategies are plans for how the organization will do whatever it’s in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.

It involves all the basic management functions; planning, organizing, leading and controlling.

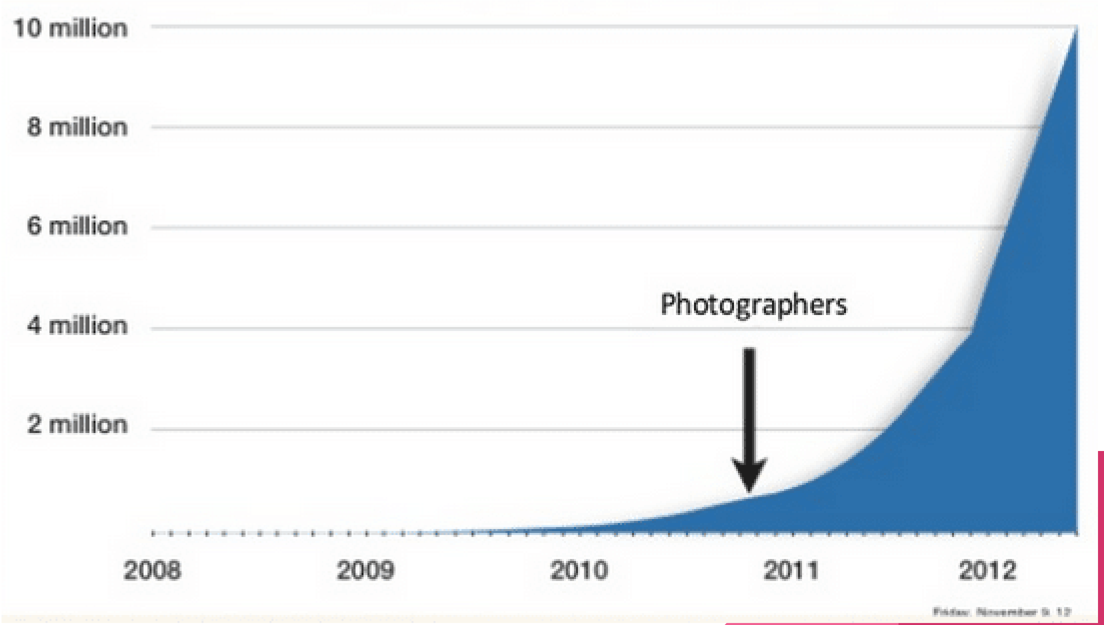
Importance of Strategic Management

There are three main reasons of why strategic management is important:

1. It can make a difference in how well the organization performs.
    a. Research has found a generally positive relationship between strategic planning and performance.
2. Managers in organizations of all types and sizes face continually changing situations.
    a. This uncertainty is managed by using the strategic management process to examine relevant factors and decide what action to take.
3. Organizations are complex and diverse, each part needs to work together towards achieving the organization’s goals.

Strategies: Case

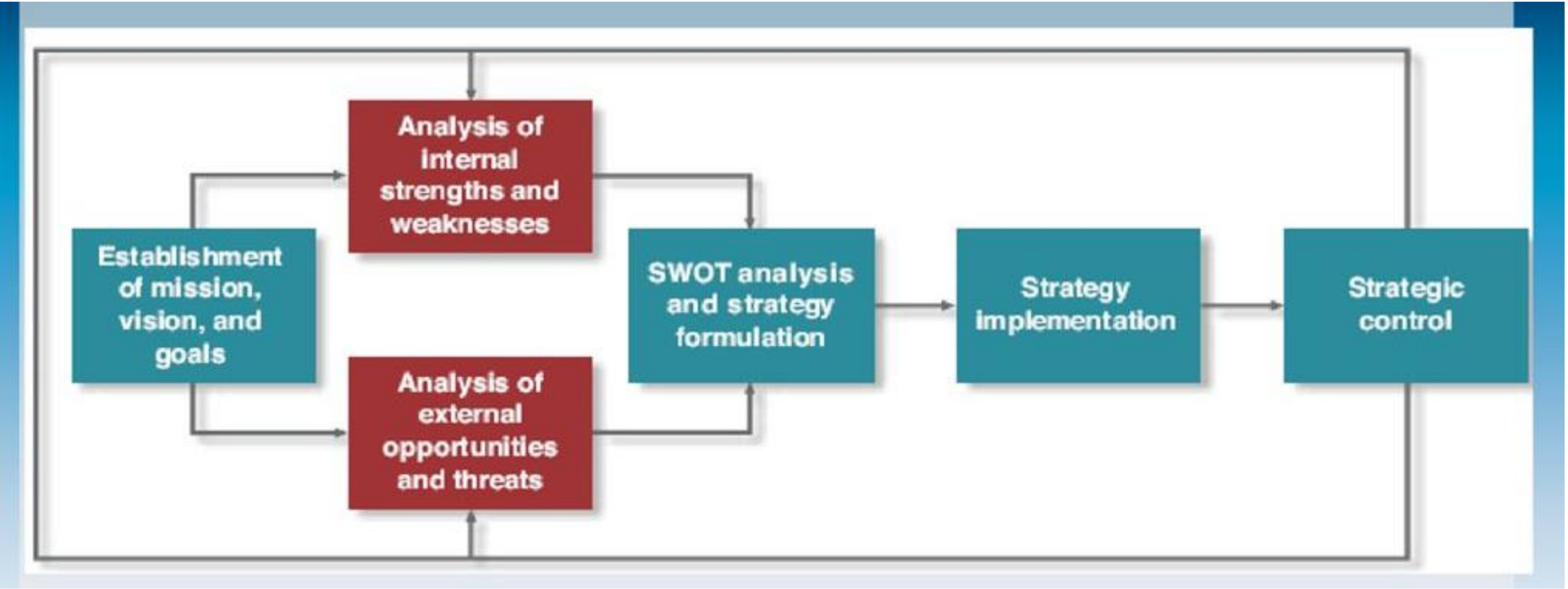
AirBnB: the problem of high listings, high traffic but low booking.



The Strategic Management Process

The strategic management process is a six-step process that encompasses strategy planning, implementation, and evaluation.

Although the first four steps describe the planning that must take place, implementation and evaluation are just as important, because even the best strategies fail if management doesn't implement or evaluate them properly.



Strategic Management Process

Steps

Step 1: Identifying the organization’s current mission, goals and strategies

Step 2: Doing an external analysis

Step 3: Doing an Internal analysis

Step 4: Formulating strategies

Step 5: Implementing strategies

Step 6: Evaluating results

Step 1: Identification of Mission

Defining a mission forces managers to identify what it's in business to do.

To challenge the status quo.
To think differently.

To refresh the world and inspire moments of optimism and happiness.

To give people the power to build community so that we can bring the world closer together.

To empower every person and organization on the planet to achieve more.

To fulfill dreams of personal, All-american freedom.

To organize the world's information and make it universally accessible and useful.

To create happiness for people of all ages, everywhere.

To accelerate the world's transition to sustainable energy.

To inspire and nurture the human spirit – one person and one cup at a time.

Step 2: External Analysis

Managers do an external analysis so they know, for instance, what the competition is doing, what pending legislation might affect the organization, or what the labour supply is at locations where it operates.

Managers should examine the economic, demographic, political/legal, sociocultural, technological, and global components like trends and changes.

After analysis, managers need to pinpoint opportunities that the organization can exploit and threats that it must counteract or buffer against.

Step 3: Internal Analysis

Provides important information about an organization’s specific resources and capabilities.

Resources are assets; financial, physical, human and intangible that it uses to deliver products to its customers (the What).

Capabilities are its skills and abilities in doing the work activities needed in its business (the How).

Managers should be able to identify organizational strengths (unique resources or good activities) and weaknesses (resources it lacks or poor activities).

Step 4 & 5: Formulating and Implementing Strategies

While formulating, managers should consider the realities of the external environment and their available resources and capabilities in order to design strategies that will help organizations achieve their goals.

Once strategies are formulated, they must be implemented. Performance will suffer if the strategies aren't implemented properly.

Step 6: Evaluating Results

The final step in strategic management process is evaluating results, to check for effectiveness in achieving organizational goals. Based on it, changes can be made.

Wal-Mart

Repurposing the Supply Chain

General Electric

An Opportunistic Push Into Sustainable Business

Nike

From Labor-Practice Compliance to Design Offensive

Corporate Strategy

Definition

A corporate strategy is one that determines what businesses a company is in or wants to be in, and what it wants to do with those businesses.

It is based on mission and goals of the organization, and the roles that each business unit of the organization will play.

The three main types of corporate strategies are;

1. Growth
2. Stability
3. Renewal

1. Growth Strategy

A growth strategy is when an organization expands the number of markets served or products offered, either through its current business(es) or through new business(es).

This allows an organization to increase its revenues, number of employees or market share.

Growth is achieved via concentration, vertical integration, horizontal integration or diversification.

1. Growth Strategy

1. **Concentration:** focus is on primary line of business, increase the number of products offered or market served in it (e.g. Bose Corporation).
2. **Vertical integration**: Is either backward or forward, or both. Backward integration is when an organization becomes its own supplier so it can control inputs (e.g. eBay online payments). Forward integration is when an organization becomes its own distributor thus controlling its outputs (e.g. Apple retail stores).
3. **Horizontal integration**: Company combines with its competitors (e.g. L'Oreal acquiring The Body Shop). Such integrations are scrutinized to check for any harms consumers may receive due to decreased competition.
4. **Diversification:** Can be related or unrelated, related diversification happens when a company combines with other companies in different, but related, industries (American Standard Co. operates in bathroom fixtures, breaks etc for strategic fit). Unrelated diversification is when a company combines with firms in different and unrelated industries (Tata Group investments in chemicals, IT, energy, etc.)

2. Stability

A stability strategy is a corporate strategy in which an organization continues to do what it is currently doing.

Companies following this strategy can continue serving the same clients by serving the same product or service, maintaining market share, and sustaining the organization’s current business operations.

This leads to the organization neither growing nor falling behind.

3. Renewal

Renewal strategies are adopted when an organization is in trouble and something needs to be done. These strategies address declining performance.

There are two types of renewal strategies; retrenchment and turnaround.

Retrenchment: This is a short-run renewal strategy used for minor performance problems, helping organizations stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again.

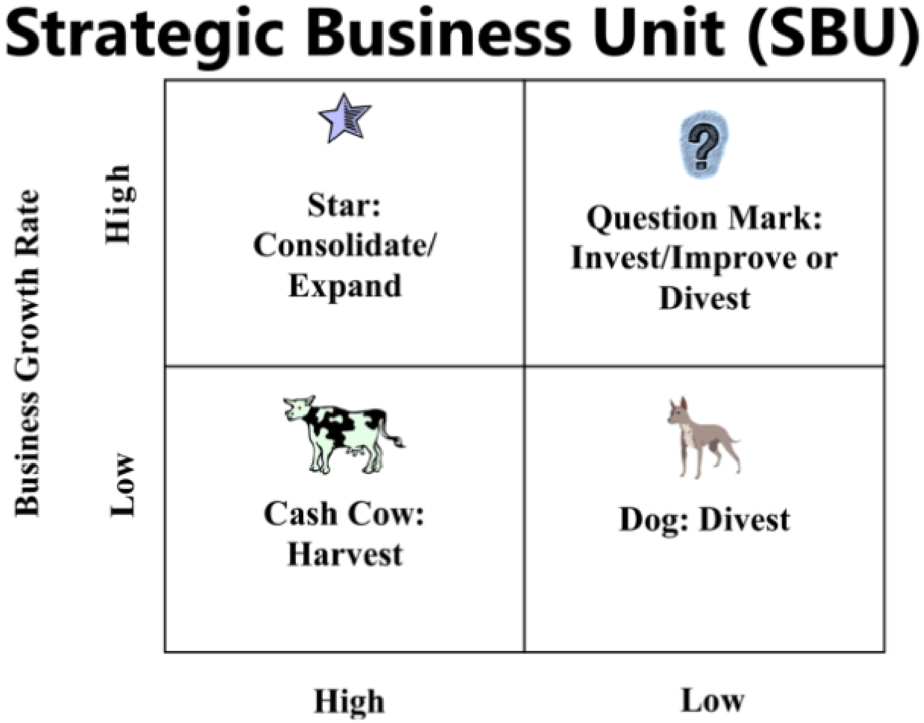
Turnaround: More serious problems require more drastic actions, so extensive cutting costs and restructuring of organizational activities take place (as compared to retrenchment)

Managing Corporate Strategies

When an organization's corporate strategy encompasses a number of businesses, managers can manage this collection, or portfolio, of businesses using a tool called a Corporate Portfolio Matrix.

This portfolio matrix provides a framework for understanding diverse businesses and helps managers establish priorities for allocating resources.

The BCG (Boston Consulting Group) matrix is the first tool developed to identify which businesses offered high potential and which drained organizations resources.



Strategic Implications of BCG Matrix

The dogs should be sold off or divested, to exit the industry. They have low market share in markets with low growth potential.

Cows should be 'milked' as much as possible, while limiting any new investment in the products. The large amount of cash generated should be used to invest in starts and question-marks with strong potential to improve market share.

Heavy investment in stars will help take advantage of the business's growth and help maintain high market share. They will eventually become cash cows as their markets mature and sales growth slows.

Question marks are the hardest decisions, some will be sold off while others strategically nurtured into stars.

Competitive Strategies

Definition

- A competitive strategy is a strategy for how an organization will compete in its businesses.

- It is a long-term action plan of a company which is directed to gain competitive advantage over its rivals after evaluating their strengths, weaknesses, opportunities and threats in the industry and compare it with your own.

- This strategy is very important when firms having a competitive marketplace and several similar products available for consumers.


RIVALRY AMONG EXISTING COMPETITORS:
Number of competitors
Diversity of competitors
Industry concentration
Industry growth
Quality differences
Brand loyalty
Barriers to exit
Switching costs
THREAT OF NEW ENTRANTS
THREAT OF NEW ENTRANTS:
Barriers to entry
Economies of scale
Brand loyalty
Capital requirements
Cumulative experience
Government policies
Access to distribution channels
Switching costs
BARGAINING POWER OF SUPPLIERS
RIVALRY AMONG EXISTING COMPETITORS
BARGAINING POWER OF BUYERS
BARGAINING POWER OF SUPPLIERS:
Number and size of suppliers
Uniqueness of each supplier's product
Focal company's ability to substitute
BARGAINING POWER OF BUYERS:
Number of customers
Size of each customer order
Differences between competitors
Price sensitivity
Buyer's ability to substitute
Buyer's information availability
Switching costs
THREAT OF SUBSTITUTE PRODUCTS:
Number of substitute products available
Buyer propensity to substitute
Relative price performance of substitute
Perceived level of product differentiation
Switching costs
THREAT OF SUBSTITUTE PRODUCTS

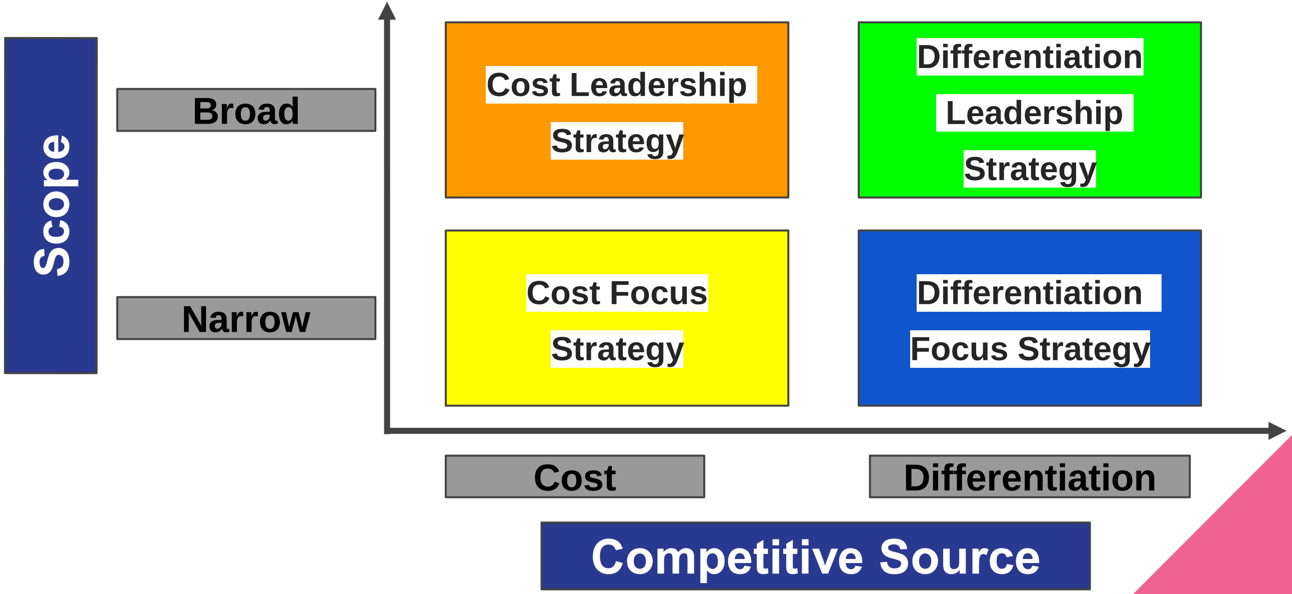
Types of Competitive Strategies

Micheal Porter a professor in the Harvard University divided competitive strategy into four different type of strategies

Cost Leadership Strategy	**Differentiation Leadership Strategy**
Cost Focus Strategy	**Differentiation Focus Strategy**

Types of Competitive Strategies

As per the nature / scope of work and availability of competitive source the four types of strategies can be depicted as following;



Types of Competitive Strategies

1.	**Cost Leadership**	● This strategy is difficult to implement for small scale businesses as it involves making long term commitment for offering products and services at lower prices in the market ● The objective of the firm is to become the lowest cost producer in the industry ● It is achieved by producing in large scale which enables the firm to attain economies of scale ● It is achieved by producing in large scale which enables the firm to attain economies of scale ● There are many cost leadership factors such efficient operation, large distribution channels, technological advancement and bargaining power ● **Example:** Walmart
2.	**Differentiation leadership**	● Identifying attribute of a product which are unique from competitors in the industry is the driving factor in the differentiation leadership strategy ● When a product is able to differentiate itself from other similar products or services in the market through superior brand quality and value added features it will be able to charge premium prices to cover the high cost. ● **Example:** Apple, Starbucks, Ben & Jerry’s and T Mobiles

Types of Competitive Strategies

3.	**Cost focus**	● This strategy is quite a resemblance to the cost leadership strategy ● The cost focus strategy businesses target a particular segment within the market and that segment is offered the lowest price of the product or service ● This type of strategy is very useful to satisfy your consumer and increase brand awareness hence gain popularity. ● **Example:** <u>Sonata Watches</u>, <u>Beverage Companies</u>
4.	**Differentiation focus**	● Differentiation focus strategy targets a particular segment within the market; however, instead of offering lower prices to consumer; firms differentiate itself from its competitors. ● Differentiation strategy offers unique features and attributes to appeal its target segment. ● This type of differentiation is made to meet demands of border customers who refrain from purchasing competitors' products only due to missing of small features. ● It is a clear niche marketing strategy. ● **Example:** <u>Titan watches</u>

❑ ***<u>Without following anyone of above mentioned competitive strategies, it becomes very difficult for firms to sustain in competitive industry</u>.***

Types of Competitive Strategies - Examples

S. No	Type of Strategy	Examples
1.	Cost Leadership	Micromax smart phones and mobile phones are giving good quality products at an affordable price which contain all the features which a premium phone like Apple or Samsung offers
2.	Differentiation leadership	BMW offers cars which are different from other car brands. BMW cars are more technologically advanced, have better features and have got personalized services
3.	Cost focus	Sonata watches are focused towards giving wrist watches at a low cost as compared to competitors like Rolex, Titan, Omega etc.
4.	Differentiation focus	Titan watches concentrates on premium segment which includes jewels in its watches.

Strategic Management Issues

Current Strategic Management Issues

Managers everywhere face increasingly intense global competition and high performance expectations by investors and customers.

Mainly there are three main current strategic management issues, listed as following;

- ❑ Need for strategic leadership
- ❑ Need for strategic flexibility
- ❑ Designing strategies (emphasizing on e-business, customer service and innovation)

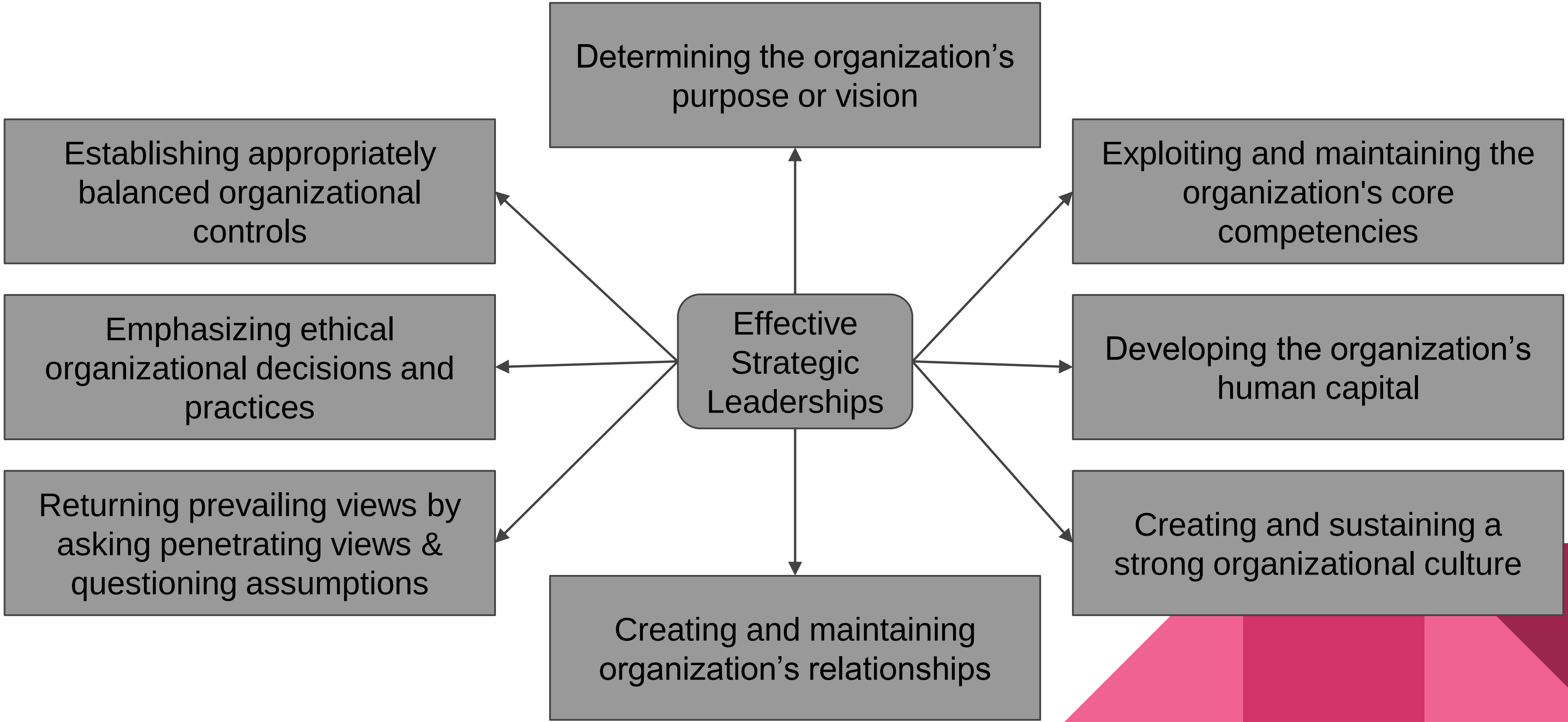
Need for Strategic Leadership

- An organization’s strategies are usually developed and overseen by its top managers.

- There are eight key dimensions that determines the organization’s purpose or vision, exploiting or maintaining organization’s core competencies.

- Each dimension encompasses an important part of the strategic management process.

Need for Strategic Leadership



Need for Strategic Flexibility

- Strategic flexibility is the capability of an organization to respond to major changes that take place in its external environment by committing the resources necessary to respond to those changes.

- More importantly, the organization should be able to identify change markers so that it can go back to its previous state when the external environmental change is reversed.

- Strategic flexibility is used when a strategic decision is not working in response to external changes and to quickly commit resources.

- Strategic flexibility can be used by organizations as both an offense and defense mechanism, depending on the nature of change and its impact on the organization

Suggestions for Developing Strategic Flexibility

- Encourage leadership unity by making sure everyone is on the same page
- Keep resources fluid and move them as circumstances warrant
- Have the right mindset to explore and understand issues and challenges
- Know what's happening with strategies that are currently being used by monitoring and measuring results
- Encourage employees to be open about disclosing and sharing negative information
- Get new ideas and perspectives from outside the organization
- Have multiple alternatives when making strategic decisions
- Learn from mistakes

The End